

FISCAL NOTE

SB 3428

March 3, 2008

SUMMARY OF BILL: Imposes an equity assessment of 50 cents per pack of cigarettes on cigarette manufacturers not participating in the Tobacco Master Settlement Agreement.

ESTIMATED FISCAL IMPACT:

Increase State Revenue – Net Impact - \$23,011,900

**Increase State Expenditures - \$164,000/One-Time
\$314,000/Recurring**

Increase Local Revenue - \$554,700

Assumptions:

- Based on budgeted projections, tobacco tax collections for FY08-09 are estimated to be \$345,800,000.
- Approximately 95 percent of tobacco tax revenue (\$328,510,000) is estimated to be derived from the sale of cigarettes.
- Current excise tax rate on cigarettes is \$0.62 per pack.
- The number of packs sold during FY08-09 is estimated to be 529,854,800 ($\$328,510,000 \div \$0.62 = 529,854,839$ packs).
- According to the Department of Revenue (DOR), approximately 9.0% of all cigarette sales originate from non-participating manufacturers.
- The number of packs sold by non-participating manufacturers is estimated to be 47,686,900 ($529,854,800 \times 9.0\% = 47,686,932$) per year.
- An elasticity rate on cigarettes of -0.75.
- Current consumer price per pack is estimated to be \$3.95 per pack.
- Imposing a 50-cent per pack equity assessment will increase the price per pack to the consumer by 12.7% ($\$0.50 \div \$3.95 = 12.7\%$).
- Quantity demanded would decrease by an estimated 9.53% ($12.7\% \text{ increase} \times -0.75 \text{ elasticity} = -9.53\%$).
- Quantity demanded in FY08-09 is estimated to be 43,142,300 packs ($47,686,900 \times \{100.00\% - 9.53\%\} = 43,142,338$).

- Total equity assessments are estimated to be \$21,571,200 in FY08-09 (43,142,300 packs x \$0.50 assessment = \$21,571,150).
- Sales tax collections will increase because sales tax will be computed on the final retail sale (which includes the equity assessment).
- Current state sales tax rate on cigarettes is seven percent.
- The increase to state sales tax revenue is estimated to be \$1,510,000 per year ($\$21,571,200 \times 7.0\% = \$1,509,984$).
- Local governments receive a 4.5925% share (\$69,300) of state sales tax revenue.
- The net increase to state revenue derived from sales tax is estimated to be \$1,440,700 ($\$1,510,000 - \$69,300 \text{ local share} = \$1,440,700$) per year.
- The local option sales tax rate is estimated to average two and one-quarter percent.
- The increase to local government revenue is estimated to be \$485,400 per year ($\$21,571,200 \times 2.25\% = \$485,352$).
- DOR would require four additional Tax Auditor 4 positions and one additional Taxpayer Services Representative 1 position. The recurring increase to state expenditures for the five positions is estimated to be \$314,000 per year (salary, benefits, communications, supplies, etc.). One-time state expenditures associated with the five positions is estimated to be \$24,000 (computers and software).
- Additional one-time state expenditures for computer and software modifications estimated to be \$140,000.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/rnc